

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
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FM AMEMBASSY MOSCOW
TO SECSTATE WASHDC 3989
INFO AMEMBASSY BELGRADE
AMEMBASSY BUDAPEST

C O N F I D E N T I A L MOSCOW 1881

EO 11652: GDS
TAGS: BGEN ECON EEWT UR
SUBJECT: INTERNATIONAL HARVESTER ACTIVITIES IN USSR

REF: STATE 20676 (NOTAL)

SUMMARY: INTERNATIONAL HARVESTER OFFICIAL MCMENAMIN CALLED ON AMBASSADOR TO REVIEW HIGHLY SUCCESSFUL I-H OPERATIONS IN USSR. MCMENAMIN MENTIONED THAT TRACTOROEXPORT, AS PRINCIPAL I-H CUSTOMER IN USSR, HAD APPROACHED I-H FOR ASSISTANCE IN ESTABLISHING TRACTOR COMPANY IN US (REFTEL). MCMENAMIN SAID HE THOUGHT SOVIETS HAD FINALLY GOT CLEAR WHY I-H WAS RELUCTANT TO DEVELOP V-8 ENGINE FOR ZIL PURSUANT TO PROPOSAL ADVANCED BY KOSYGIN TO I-H PRESIDENT MCCORMICK. END SUMMARY

1. R.J. MCMENAMIN, VICE PRESIDENT FOR SPECIAL OPERATIONS OF THE INTERNATIONAL HARVESTER OVERSEAS DIVISION, ACCOMPANIED BY LOCAL I-H REP REARDON, CALLED ON AMBASSADOR FEBRUARY 9 TO DISCUSS COMPANY'S BUSINESS IN USSR. MCMENAMIN, WHO CHAIRS EAST/WEST TRADE ADVISORY COMMITTEE IN USDOC, SAID HE WAS MAKING 22ND VISIT TO USSR IN FOUR AND ONE-HALF YEARS.

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WM REVIEWING RECORD, MCMENAMIN SAID USSR WAS THE BEST OVERSEAS OPERATION FOR I-H, WITH OVER \$300 MILLION IN SALES SINCE 1971. SOVIET MARKET WAS DIRECTLY RESPONSIBLE FOR KEEPING 1,000 PERSONS EMPLOYED IN MELROSE PARK, HE SAID. I-H HAD JUST SIGNED A NEW

25 MILLION CONTRACT A FEW DAYS AGO. MOST

SALES HAVE BEEN CONSTRUCTION EQUIPMENT, PRINCIPALLY TO TRACTOROEXPORT FOR WORK ON THE BAM RAILWAY. MCMENAMIN SAID SOVIETS HAVE USUALLY PAID CASH IN ORDER TO AVOID HIGH INTEREST COSTS, EITHER DIRECTLY OR IN PRICE OF PRODUCT.

3. IN RESPONSE TO AMBASSADOR'S QUESTION ABOUT PROSPECTS FOR SALE OF FARM MACHINERY, MCMENAMIN SAID SOVIETS ARE SATISFIED WITH THEIR OWN EQUIPMENT AND EVEN WANT TO EXPORT IT TO U.S. TRACTOROEXPORT HAD ASKED I-H ASSISTANCE IN SETTING UP OPERATIONS IN U.S. SOVIETS HAD SUGGESTED I-H ACCEPT A SOVIET MODEL IN ITS OWMZFP ET OF FARO EQUIPMENT, BUT HAD ACCEPTED EXPLANATION THAT I-H SELLS ONLY ITS OWN MANUFACTURE. IN VIEW OF ??50 MILLION SALES TO TRACTOROEXPORT, HOWEVER, I-H HARDLY FELT IN POSITION TO SLAM DOOR IN FACE OF ITS REQUEST FOR ASSISTANCE IN SELLING ON U.S. MARKET.

4. AMBASSADOR INQUIRED IF I-H HAD EVER BEEN COMPENSATED FOR EXPROPRIATED I-H INSTALLATION NEAR MOSCOW. MCMENAMIN SAID IT HAD NOT BUT IMPLIED I-H HAD RECOVERED ITS INVESTMENT THROUGH EXPORTS ("THEY PAID, THEY PAID"). HE CITED INFLATION CLAUSE IN PAST CONTRACTS WHICH HAD PROVED LUCRATIVE WHEN INFLATION IN U.S. PROVED FAR LESS SEVERE THAN FORESEEN BY CONTRACT.

5. AMBASSADOR ASKED BOTH MCMENAMIN AND REARDON OF ANY PROBLEMS IN DOING BUSINESS IN USSR. NEITHER HAD ANY COMPLAINTS REARDON REMARKED THAT IT IS SOMETIMES NECESSARY TO DO SOME "TOE TO TOE SLUGGING" WITH SOVIET OFFICIALS, AS WHEN I-H HAD TO BRING IN FINNISH WORKERS FOR SIX MONTHS TO FINISH
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CONSTRUCTION WORK.

6. MCMENAMIN RELATED THAT ON A PREVIOUS VISIT BY I-H PRESIDENT BROOKS MCCORMICK AND MCMENAMIN, THERE HAD BEEN A 90-MINUTE MEETING WITH PREMIER KOSYGIN, WHO ADVOCATED AN INDUSTRIAL COOPERATION CONTRACT BETWEEN I-H AND ZIL. THE LATTER WANTED TO PRODUCE V-8 ENGINES UNDER I-H LICENSE. SINCE I-H DOES NOT HAVE SUCH AN ENGINE AND WAS UNWILLING TO DESIGN ONE FROM SCRATCH, THE ARRANGEMENT DID NOT COME ABOUT. SOVIETS HAVE ADVANCED SEVERAL THEORIES WHY THIS HAS OCCURRED AND VOICED SUSPICION THAT USG HAD DISCOURAGED DEAL. MCMENAMIN SAID THAT IN FEBRUARY 9 MEETING WITH SOVIET DEPUTY MINISTER OF FOREIGN TRADE SUSHKOV HE HAD FINALLY CLEARED THE AIR OF THIS MISUNDERSTANDING OF REASONS FOR I-H RELUCTANCE TO TAKE UP THIS SUGGESTION, DESPITE ITS HIGH-LEVEL ANTECEDENTS.

7. IN RESPONSE TO AMBASSADOR'S INQUIRIES ABOUT I-H OPERATIONS IN EASTERN EUROPE, AND PARTICULARLY YUGOSLAVIA, MCMENAMIN SAID THAT "BALANCE OF NEED" MUST EXIST IF THERE ARE TO BE

COMPENSATION PROJECTS. IN MOST CASES, SUCH A BALANCE IS LACKING. THE AMBASSADOR MENTIONED HAVING PUSHED HARD FOR US-YUGOSLAV JOINT BUSINESS VENTURES IN INTEREST OF GIVING POLITICAL SUPPORT TO CONTINUED YUGOSLAV SURVIVAL AS INDEPENDENT COUNTRY. HE ACKNOWLEDGED THAT BUSINESSMEN MUST SEE COMMERCIAL ADVANTAGE IF PROJECTS ARE TO PROSPER. IN THIS CONTEXT MCMENAMIN MENTIONED I-H DECISION TO PURCHASE \$250 MILLION OF TRUCK AXLES FROM HUNGARIAN FIRM RABA OVER NEXT TEN YEARS. AXLES ARE THE BEST IN EUROPE, HE SAID, AND HUNGARIANS DO NOT WISH TO SELL SUCH QUALITY PRODUCTION TO USSR WHICH, IN THEIR VIEW, IS A MARKET WHICH WILL TAKE ANYTHING IT CAN GET, REGARDLESS OF QUALITY.

8. MCMENAMIN TOOK SWIPE AT THOSE IN U.S. WHOM HE SAID HAD ADVANCED DOCTRINE OF "CALIBRATION", I.E., LINKING BUSINESS TO ATTAINMENT OF POLITICAL GOALS. HE ARGUED THAT ALTHOUGH SOVIET SIDE COULD PERHAPS WORK THAT WAY, IT WOULD NOT BE CONFIDENTIAL

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SUITABLE FOR AMERICAN BUSINESSMEN WHO NEED TO BE ASSURED OF CONSISTENT ENVIRONMENT BEFORE UNDERTAKING MAJOR COMMERCIAL TRANSACTIONS.

9. COMMENT: OUR FILES SHOW THAT MCCORMICK AND MCMENAMIN MET WITH KOSYGIN AND SUSHKOV ON APRIL 24, 1975, BUT REPORTING CABLE (75 MOSCOW 5782) DOES NOT MENTION KOSYGIN'S ADVOCACY OF I-H LICENSING V-8 ENGINES FOR ZIL. A SUBSEQUENT MESSAGE (75 MOSCOW 12048) MENTIONED ZIL INTEREST IN I-H'S DIESEL TRUCK CONCEPT AND PLANS FOR A SUSHKOV VISIT TO THE U.S. TOON

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